

Message Text

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11

ACTION NEA-12

INFO OCT-01 ISO-00 DRC-01 EB-11 AGR-20 AID-20 COME-00

NIC-01 CIAE-00 DODE-00 INR-10 NSAE-00 PA-04 RSC-01

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FM AMEMBASSY ISLAMABAD

TO SECSTATE WASHDC 2029

INFO AMEMBASSY DACCA

AMCONSUL KARACHISOQOR

AMCONSUL LAHORE

AMEMBASSY NEW DELHI

AMCONSUL PESHAWAR

C O N F I D E N T I A L ISLAMABAD 9820

E.O. 11652: GDS

TAGS: EGEN, PK

SUBJ: OUTLOOK FOR NEW ROUND OF NATIONALIZATION

MEASURES

REFS: A) ISLAMABAD 9703

B) ISLAMABAD 9710

1. SUMMARY. IN PRIVATE CONVERSATION FINMIN MUBASHIR HASAN SAID GOP WOULD NOT RPT NOT APPROACH QUESTION OF EXTENDING NATIONALIZATION MEASURES TO NEW FIELDS ON IDEO-LOGICAL/DOCTRINAIRE GROUNDS BUT RATHER ON GRAGMATIC BASIS. WE VIEW THIS WITH SKEPTICISM. END SUMMARY.

2. AT CLOSE OF DISCUSSION NOV. 11 ON OTHER MATTERS, ECON COUNS. QUESTIONED FINMIN MUBASHIR HASAN ON GOP POLICIES RE INVESTOR SECTOR. AFTER BRIEFLY REVIEWING MEASURES TAKEN LAST YEAR AND THIS YEAR (NATIONALIZATION ON MANAGEMENT BUT NOT EQUITY SIDE OF 32 FIRMS IN TEN INDUSTRIAL SECTORS, LEGISLATION FOR TAKEOVER OF EQUITY OF SOME OF THESE FIRMS, TAKING OVER OF LIFE INSURANCE
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COMPANIES, SHIFT OF COTTON AND RICE EXPORT TRADE TO

PUBLIC SECTOR, NATIONALIZATION OF PHGETABLE OIL PRODUCING FIRMS, ETC.) HE ASKED IF MINISTER COULD INDICATE ROUGHLY WHAT GOP HAD IN MIND FOR SAY NEXT YEAR OR TWO WITH REGARD TO NATIONALIZATION MEASURES. FINMIN, SHOWING ENTIRE WILLINGNESS AND EVEN APPARENT DESIRE DISCUSS SUBJECT, COMMENCED BY STATING THAT GOP HAS NO FIRM PLANS FOR PERIOD AHEAD. GOP, HE DECLARED, IS NOT APPROACHING THIS GENERAL SUBJECT AREA ON IDEOLOGICAL AND DOCTRINAIRE GROUNDS, BUT, RATHER ON PRAGMATIC BASIS. HE EXPLAINED THAT WHERE PRIVATE ENTERPRISE IS PERFORMING EFFICIENTLY IN CONTEXT COMPETPKIODE(AND IN AN ASIDE HE SAID BROAD COMPETITION USUALLY LEADS TO EFFICIENT PERFORMANCE) GOP HAS NOT DESIRE TO INSTITUTE CHANGES. WHERE PROBLEM ARISES TO DETRIMENT OF PUBLI XLJLFARE, HOWEVER, GOP WILL NOT HESITATE TO NATIONALIZE, AS WAS RECENTLY CASE IN VEGETABLE OIL (GHEE) INDUSTRY.

3. ECON COUNS QUESTIONED CONSISTENCY OF THIS WITH PPP PLATFORM WHICH CALLED FOR NATIONALIZATION OF BANKS, MUCH MORE NATIONALIZATION IN INDUSTRIAL FIELD THAN HAS BEEN ACHIEVED, ETC. FINMIN SAID GOP REFORMS APPLICABLE TO PRIVATE BANKS HAD ADEQUATELY TAKEN CARE OF PROBLEMS

IN THAT FIELD. HE INDICATED HE IS PRESENTLY SATISFIED WITH PERFORMANCE OF PRIVATE BANKS, AND SAID THAT GOP THEREFORE HAS NO INTENTION INSTITUTE NATIONAL EATION MEASURES IN BANKING FIELD. WITH REGARD TO INDUSTRIES, HE SAID GOP HAS NO PLANS FOR FURTHER NATIONALIZATION, BUT WILL BE PREPARED TO MOVE IN INDIVIDUAL CASES WHERE PERFORMANCE MIGHT TURN OUT TO BE DETRIMENTAL TO PUBLIC WELFARE.

4. ECON COUNS INQUIRED IF FINMIN CONSIDERS IT IMPORTANT TO REVIVE DEPRESSED INVESTOR SECTOR. HE REPLIED AFFIRMATIVELY. ASKED HOW THIS MIGHT BE DONE, HE REPLIED "WE MUST EDUCATE THE IMR STOR SECTOR." THE LARGE INVESTORS, HE SAID SHOULD BE SHOWN THAT IT IS IN MUTUAL INTERESTS OF GOVERNMENT AND INVESTORS FOR FUNDS OF LATTER TO BE INVESTED

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IN DOMESTIC ENTERPRISES RATHER THAN TO BE SENT ABROAD OR LEFT IDLE. FINMIN WAS REMINDED THAT INVESTORS HAVE INDICATED THEY NEED ADDITIONAL INCENTIVES TO INVEST, AND SEEK GUARANTEES ABOUT NATIONALIZATION PLANS OF GOP. HE REPLIED THAT GREAT MAJORITY OF INVESTORS HAVE NO QUALMS ABOUT GOP POLICIES IN THIS RESPECT; IT IS ONLY A MINORITY OF INVESTORS WHO PROFESS SUCH VIEWS AND SEEK TO IMPOSE THEIR IDEAS ON MAJORITY, HE ALLEGED.

5. COMMENT. WHILE STATEMENTS OF FINMIN THAT GOP WILL ESCHEW DOCTRINAIRE APPROACH TO NATIONALIZATION QUESTIONS IS SUPERFICIALLY ENCOURAGING, THIS DOES NOT REALLY SQUARE WITH HIS KNOWN OUTLOOK AND WHAT WE HAVE SEEN OF HIS PERFORMANCE UP TO NOW. WHO WILL DECIDE, FOR ONE THING, WHEN A PRIVATE INDUSTRY IS PERFORMING INEFFICIENTLY? VEGETABLE OIL INDUSTRY, FOR EXAMPLE, EXPLAINED ITS PERFORMANCE ON GROUNDS AMONG OTHERS THAT GOP PRICING POLICIES GAVE NO INCENTIVE TO INCREASE PRODUCTION -- AS ECON COUNS, INCIDENTALLY, CALLED TO ATTENTION OF FINMIN. LATTER SIMPLY DENIED THIS, AND TOOK PRIDE IN ALLEGED 50 PER CENT INCREASE IN PRODUCTION SINCE NATIONALIZATION/(8&8*8:3,5)6, IT SHOULD ALSO BE NOTED THAT FINMIN'S UNDERSTANDING OF NEEDS FOR REVIVING INVESTOR CONFIDENCE CLASH WITH THOSE OUTLINED BY ADVISOR-DESIGNEE MAHBUB UL HAQ, WHO SAID INVESTORS NEED GOP GUARANTEES ON NATIONALIZATION POLICY (REF A). WE, THEREFORE, REMAIN SKEPTICAL AS TO DIMENSIONS OF GOP NATIONALIZATION POLICY DURING PERIOD AHEAD, AND GOP RELATIONS WITH INVESTOR SECTOR, DESPITE REASSURING WORDS OF FINMIN.

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